

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the Second Quarter of 2000 to the Fourth Quarter of 2003**

This year, Idaho's economy is expected to repeat last year's surprisingly strong showing. In 1999, Idaho nonfarm employment expanded by a healthy 3.4%—more than twice as fast as had been previously anticipated. With a half a year's data already in the can, Idaho nonfarm employment is on track to grow by 3.4% in 2000. As has been the case in the past, the state's huge services-producing sector will contribute the lion's share of this growth. However, employment will also be boosted this year by the high-flying technology sector. Indeed, this sector's employment should expand 8.4% in 2000, which is more than twice as fast as overall nonfarm job growth.

Idaho personal income was up 8.1% in 1999—its strongest showing since 1993. After adjusting for inflation, Idaho total personal income increased 6.3% in 1999. A major contributor to the growth was the 8.6% surge in wages and salaries. It is believed that this component was boosted by bonus payments in 1999. These bonuses, as well as realized capital gains, helped Idaho individual income tax collections to grow 14.1% in the state's fiscal year 2000. In calendar year 2000, Idaho personal income growth is projected to slow to 6.8% because of lower wage gains and an anticipated drop off in farm proprietors' income. The impact of the latter is significant. When the impacts of the decline of farm proprietors' income and farm wages are removed from personal income, nonfarm personal income rises 7.4% in 2000, which is faster than total personal income growth in 2000.

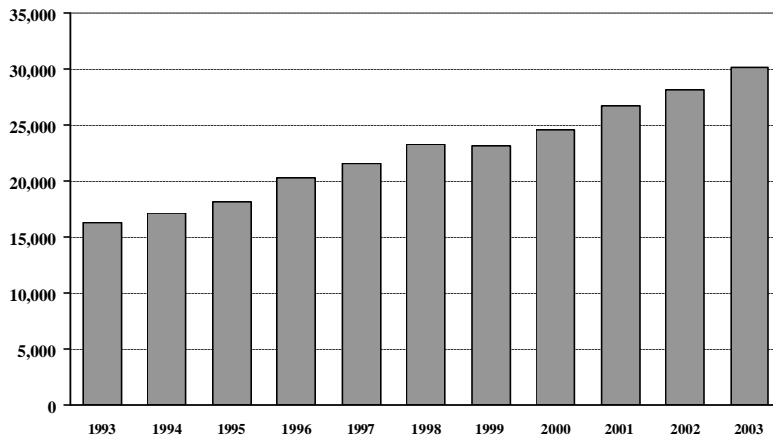
While it is expected to remain healthy, Idaho's economic growth is forecast to slow after this year. For example, Idaho nonfarm employment should expand 2.7% in 2001 and 2.4% in both 2002 and 2003. Idaho nominal personal income is forecast to rise 7.0% in 2001, 6.2% in 2002, and 6.3% in 2003. This pattern is apparent even when adjusting for inflation. Specifically, real Idaho personal income growth tapers down from 4.9% in 2001 to 4.5% in 2002, and to 4.4% in 2003. Other indicators also point to continued, but slowing, growth. The Gem State's population, which had grown by 1.7% in 1999, will see its growth drop to 1.2% in 2003. Idaho housing starts should peak at nearly 10,600 units in 2000, then hover near 10,000 units over the remainder of the forecast. In summary, there is no national recession anticipated over the forecast horizon, and Idaho's economy should continue expanding over the next few years.

Of course, some sectors will grow slower than the state's overall average, while some will grow faster. Idaho's lumber and wood processing sector was once the state's largest durable goods manufacturing employer. However, this sector has fallen on hard times, and its employment is expected to shrink over the forecast period. The Idaho Department of Labor estimates that over 1,500 employees have been affected by mill closures or curtailments from May 2000 to September 2000.

Other sectors have prospered in the state's dynamic economy. A rash of recent announcements by local high-tech companies could add another 1,200 jobs to payrolls. A new player in the state, call centers, has also grown rapidly. According to Idaho Department of Labor estimates, call centers employed 10,600 persons in July 2000. One of the most pleasing aspects of this growth is how diverse this growth has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air announced plans to open a call center in Boise that will employ 200. Tele-Servicing Innovations will open a call center in Burley that will employ 100 persons.

## SELECTED IDAHO ECONOMIC INDICATORS

**Idaho Electrical & Nonelectrical Employment**



### **Electrical and Nonelectrical Machinery:**

The general outlook for Idaho's electrical and nonelectrical machinery sector has changed little from the previous forecast. A comparison of the current and previous forecast shows employment virtually the same in 2003. What has changed is the timing of when the growth takes place. In the previous forecast growth rises fastest in the latter two years of the forecast horizon. In the current forecast, job growth is fastest this year and next. This reflects the revised forecast which shows the production of

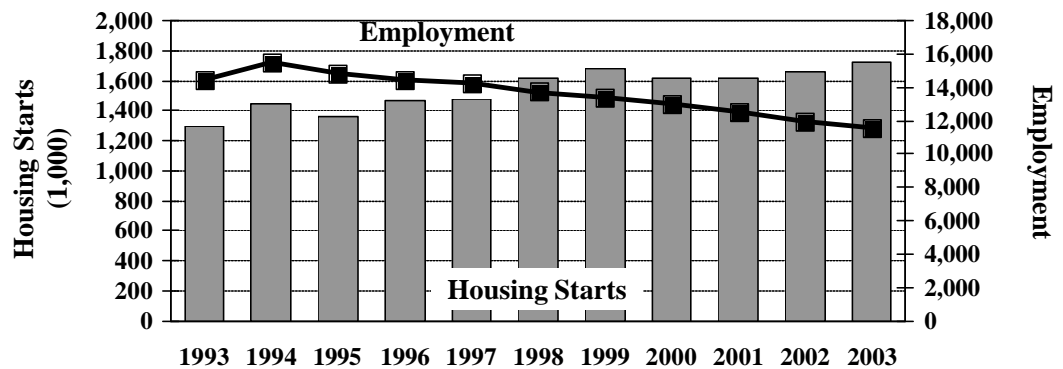
electronic components and office and computer equipment growing more steeply this year. This change anticipates strong spending on computers and office equipment this year. The biggest change is in electrical components. This measure is forecast to grow 70.2% in 2000, compared to the previous projection of 49.4%. Likewise, office and computer equipment production should also jump out to a faster start. After this year, production growth for both of these measures will each drop below their previously forecasted counterparts. However, the momentum from this year's strength explains why the number of jobs that is currently expected and had been projected previously are so close in 2003. Micron Technology, a world-class manufacturer of computer memory products, should benefit from the stronger demand for its products. This marks a welcome turnaround from the combination of weak demand and a worldwide excess manufacturing capacity that kept prices for memory chips low. Data from recent years show how quickly capacity has grown. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Thanks to being the lowest cost producer of memory products in the world, Micron Technology has been able to avoid layoffs during the recent market weakness and is well positioned to take advantage of higher prices. The company recently started a \$200 million expansion at its Boise campus that will add 500 more jobs, most of which will be in research and development. Micron Electronics, the company's computer manufacturing arm has also enjoyed recent success. After implementing new marketing strategies, the company experienced record shipments. Other Gem State high-tech companies are also looking forward to a brighter future. Less than a year after opening the doors of its new Treasure Valley plant, Jabil Circuit, Inc. has announced plans to double its manufacturing space. Company officials explain that the expansion is in response to anticipated industry growth. This expansion will add up to 700 new jobs over the next few years. This would boost employment to about three times its initial level. Jabil began its Idaho operations just two years ago when it acquired the assets (and employees) of Hewlett-Packard's formatter manufacturing operations. The sale of these assets reflected Hewlett-Packard's strategy to refocus the Boise site's mission towards research and development and away from manufacturing. As a result of that move, Hewlett-Packard's employment in Idaho has remained near the 4,000 level in recent years. Idaho electrical and nonelectrical manufacturing employment is expected to rise 6.2% in 2000, 8.4% in 2001, 5.9% in 2002, and 7.0% in 2003.

## Lumber and Wood Products:

Idaho lumber and wood products employment is forecast to continue sliding over the next few years. In 1993, the number of jobs in this sector peaked at 15,520. Since then, this sector has suffered annual employment declines. Specifically, from 1994 to 1998, this sector's collective payroll has shrunk by nearly 1,800 positions,

with a 500-person drop in 1998 alone. Another 330 jobs were lost in 1999. Unfortunately, low prices have played havoc with employment this year. The composite price for framing lumber fell from \$490 per thousand board feet in July 1999 to just \$291 per board feet in September 2000. These low prices forced many Idaho mills to curtail their operations. Potlatch Corporation temporarily reduced payrolls by 300 in June 2000. The company also laid off 21 workers at its St. Maries' plywood plant. In July, Regulus Stud Mill's employment fell from 100 to 15 workers. That same month, Louisiana-Pacific shut down its Chilco sawmill and Sandpoint finishing plant, affecting 145 employees. While most of these layoffs are temporary, some are permanent. Potlatch Corporation let go of 140 salaried workers last summer. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July. More recently, Potlatch announced that it closed and will dismantle its Jaype Mill near Pierce. This move affects 215 workers. The Idaho Department of Labor estimates that over 1,500 employees have been affected by mill closures or curtailments from May 2000 to September 2000. Unfortunately, low prices may continue to be a burden for this sector until its excess capacity shrinks. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. This excess capacity will continue to exert negative pressure on prices. The longer term presents it own set of problems. Most notably, employment in the lumber and wood products industry will be constrained by the uncertainties concerning the timber supply from federal forests. According to U.S. Forest Service records, the harvest from Idaho national forests has declined steadily from 810.2 million board feet in 1989 to 239.8 million board feet in 1998. The impact of this reduction is not only measured in lost jobs, but in reduced federal government payments to Idaho local governments. These payments in lieu of taxes have fallen with the harvest. For example, from federal fiscal year 1998 to 1999, the distribution of funds to Idaho forest communities dropped by nearly \$5 million, or about 40%. Idaho lumber and wood products employment should fall 3.1% in 2000, 3.8% in 2001, 4.3% in 2002, and 3.3% in 2003.

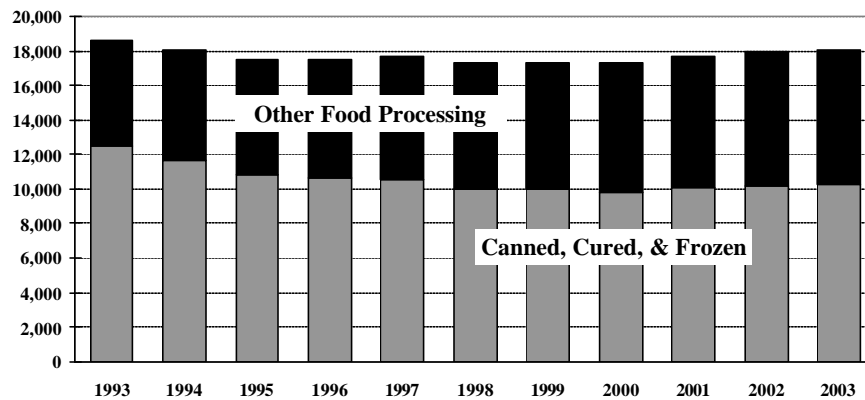
## Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

**Food Processing:** Employment in the state's huge food processing sector has been flat over the last decade. The number of jobs went from 17,336 in 1988 to 17,291 jobs in 1999. Over 1,000 jobs were lost from 1993 to 1999. While some of this loss was due to business downturns, other factors also played a significant role. For example, J.R. Simplot Company closed one of its two Caldwell, Idaho processing plants during this period. Between 300 and 400 jobs were lost as a result of this closure. Another Gem State food processing player, Ore-Ida, reduced its headquarters' staff by about 100 after

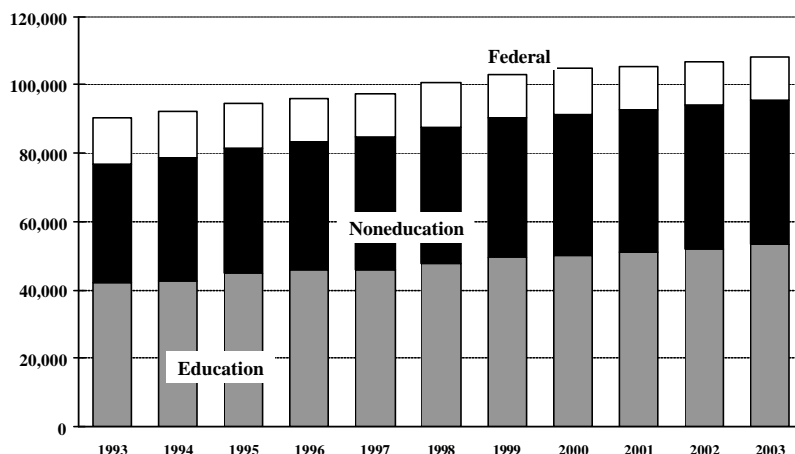
## Idaho Food Processing Employment



it sold its food service division to Canadian food processing giant McCain Foods, Ltd. Unfortunately, this was not the last reduction by Ore-Ida. Approximately 400 Idaho jobs were lost in 1999 when H.J. Heinz Company consolidated Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into the new Heinz Frozen Food Company based

in Pittsburgh. In light of this negative news, it should be pointed out that some elements of food processing have actually thrived in recent years. Most notably was the state's dairy industry. Idaho is the nation's sixth largest producer of milk. The state's dairy herd increased from 179,000 milk cows in 1990 to 318,000 cows in 1999. The expansion of the herd and higher output per cow caused milk production to climb from about 3 billion pounds to nearly 6.5 billion pounds over this period. The value of the milk produced rose from \$360 million in 1990 to about \$840 million in 1999. As of June 2000, there were 349,000 dairy cows in the state and production was 614 million pounds. Most of the larger dairies are located in the Magic Valley. The state's milk processing industry has expanded along with its dairy herd. This can be seen in production statistics. From 1995 to 1999, the whole milk equivalent used in Idaho manufactured products jumped over 40.0%, from 3.8 billion pounds to 5.3 billion pounds. Most of this was used to produce American cheese. Glanbia, Inc. is the largest dairy processor in Idaho. It employs over 400 people and has over \$400 million in sales per year. Glanbia, Inc. recently completed a \$33 million expansion to its Gooding cheese processing plant that can process six million pounds of milk per day. Land O' Lakes also completed a huge expansion to its feed-processing plant in Gooding. The Salmon Valley Cheese Factory plans to produce 10 million pounds of cheese annually beginning this summer, and production could expand further in the near future. Idaho food processing employment should retreat 0.2% in 2000, but advance 2.4% in 2001, 1.6% in 2002, and 0.8% in 2003.

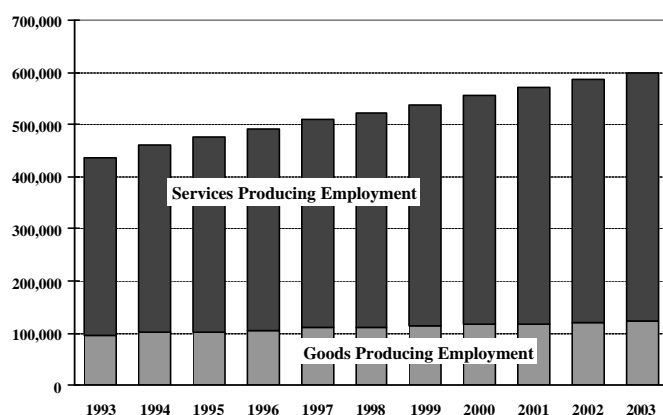
## Idaho Government Employment



**Federal, State, and Local Governments:** Idaho's state and local government employment growth should cool over the forecast period. The number of jobs in this sector is tied to the population. Population is partly driven by migration, which is a function of economic growth. During the 1990-91 recession, Idaho's economy continued to expand. Thus, it was seen as an oasis in an economic desert. For example, during the 1990-92 period, Idaho nonfarm employment rose by 31,300 (8.1%) compared to a loss of 356,300 jobs (-

2.5%) in California. As a result, a storm surge of migration hit the Gem State in the first half of the 1990s. In each of the three years from 1992 to 1994, more than 20,000 more people moved into the state than left it. This helped the state's population grow by about 3.0% in each of those years, nearly three times faster than the nation's population. The demands of the expanding population strained government resources and fueled Idaho government employment growth. As a result, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade, a rate more than twice the national average. But even at this quick pace, all levels of government were challenged to meet the needs of a population that grew as much as three times as fast as the nation. As the U.S. economy expanded in the second half of the 1990s, the economic gap between Idaho and other states narrowed. This caused net migration into Idaho to drop off. By the end of the decade, migration was about 10,000 per year, about half as high as its earlier peak, and Idaho's population was growing just twice as fast as the nation's. Not surprisingly, there has been a marked slowing in Idaho state and local government employment growth, from above 4.0% in the early 1990s to a about 2.5% at its tail end. But population is not the only factor that has affected government job growth. A state law that caps local government budgets has also limited government employment gains. In addition, this year's growth rate will also be impacted by a series break in the education-related employment data. The Idaho Department of Labor recently detected a data problem that inflated this sector's employment by 2,000 persons. In order to correct this, the Department of Labor reduced employment by 2,000 beginning in January 2000. As a result of this adjustment, the decline from the last quarter of 1999 to the first quarter of 2000 is exaggerated, and the 1999 to 2000 year-to-year growth is underestimated. The trends that shaped the second half of the 1990s are expected to continue into the next few years. Thus, Idaho state and local government employment is forecast to increase 1.4% in 2000, 1.5% in 2001, 1.4% in 2002, and 1.4% in 2003. Federal government employment in Idaho is largely driven by budget decisions made Washington, D.C. The recent round of federal budget belt-tightening has caused the number of federal jobs in Idaho to trend downwards in the 1990s. This is expected to continue in through the next few years. Specifically, the number of federal jobs in the Gem State should be 13,175 in 2000, 12,543 in 2001, 12,724 in 2002, and 12,730 in 2003. The large drop in 2001 reflects the layoff of temporary U.S. Census workers hired in 2000.

### Idaho Nonfarm Employment

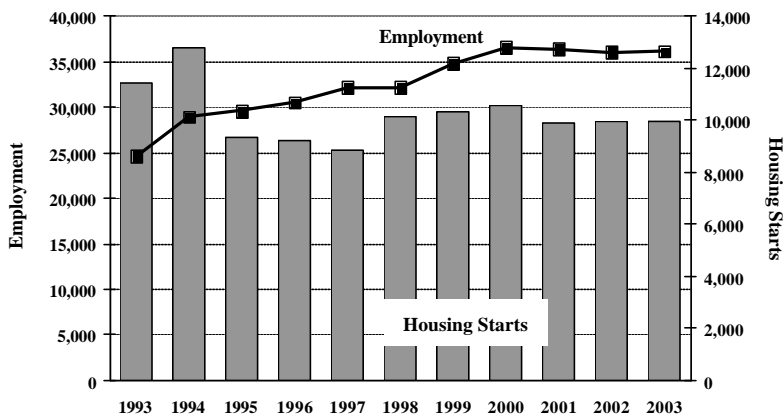


**Services-Producing Industries:** The services-producing sector is the state's largest employer. It alone accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, the remainder still accounts for over 60% of all jobs. Not only is this sector diverse, it is also dynamic. For example, it has benefited recently from the growth of call centers in the state. The call centers are

involved with catalog sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. According to Idaho Department of Labor estimates, call centers employed 10,600 persons in July 2000. One of the most pleasing aspects of this growth is how diverse this growth has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in

the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air announced plans to open a call center in Boise that will employ 200. Tele-Servicing Innovations will open a call center in Burley that will employ 100 persons. Another source of growth has been business services. Part of its growth reflects contract employees working at manufacturing firms. Although they perform manufacturing tasks, they are employed by employment agencies and are counted as business services employees. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year. The U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. Overall, services-producing employment is projected to increase 3.6% in 2000, 2.9% in 2001, 2.7% in 2002, and 2.5% in 2003.

### Idaho Construction Employment and Housing Starts



**Construction:** Idaho's economy will begin this decade without a boost from one of its important growth engines: construction. This is a significant change from the start of the 1990s. In the first half of the last decade, Idaho construction employment grew faster than overall employment, advancing at a double-digit pace in several years. From 1988 to 1997, the period of strongest growth, this sector's employment rose from just over 14,000 to around 32,000. This sustained growth was due in part to the explosive building growth during this period. Specifically, total housing starts in

Idaho bottomed out at 3,334 units in 1988, but peaked at 12,767 units in 1994—a near fourfold increase in less than 10 years. Housing starts have hovered in the 9,000-to-10,500 level since 1994. The fast-growing population caught the slowly expanding housing stock off guard, which led to chronic housing shortages in the state's population centers. As a result, housing starts were in catch-up mode during the early 1990s. Thus, Idaho never developed a serious housing inventory overhang, making the transition from boom to slower times much less painful than it usually occurs in this notoriously cyclical industry. Given the anticipated tapering off of population growth and the assumption that the Federal Reserve's most recent round of tightening is near completion, the forecast calls for total Idaho housing starts to drop to hover near 10,000 units over the forecast period. Idaho construction employment should gradually slide from about 36,600 in 2000 to 36,200 in 2003.